

Chapter 21 Rate Base, Operating Expenses and Rate of Return

Rule 21

100 General

In regulating the rates of any public utility subject to the provisions of this rule, the Commission shall, on hearing after reasonable notice, ascertain and fix the rate base of the property of the public utility in such a manner as to be fair both to the public utility and to the consumer, when the same is relevant or material to the exercise of the jurisdiction of the Commission. The Commission shall make readjustments from time to time, and ascertain the cost of all new construction, extensions and additions to the property of every public utility.

101 Rate Base Considerations

In arriving at such a rate base, the Commission shall give due consideration to:

1. The reasonable original costs of the property used and useful, or to be used and useful within a reasonable time after the test period;
2. The portion of the cost which has been consumed by previous use recovered by depreciation expense;
3. The allowance for funds used during construction, not to exceed on borrowed funds the true net interest cost of such funds, computed according to the actuarial method, and, on the equity component thereof, a rate of return granted on common equity in the last rate proceeding of the subject utility before the Commission, or if such rate has not been established within the preceding three (3) years, then the average rate of return actually earned on equity during the preceding three (3) years. In connection with such calculations, compliance with the rules of any federal agency having jurisdiction over the subject utility may be deemed sufficient compliance with this rule;
4. Any other items proposed by the utility in a rate case; and
5. Other elements which are deemed by the Commission to be material in determining the rate base for ratemaking purposes.

102 Test Period

The test period for measuring a public utility's rate base may be the twelve (12) month period beginning with the proposed effective date of the new rates set forth in the Notice of Intent.

103 Inclusions and Exclusions

1. Donated Property

The rate base shall not include property donated to such utility without any consideration nor shall operating expenses include depreciation of such donated property.

2. Operating Expenses

The allowable operating expenses of a utility for ratemaking purposes shall include all necessary, prudent and reasonable expenses incurred or to be incurred in the rendition of the utility's service.

3. Specific Expense Items

The following expenditures are not considered allowable operating expenses:

- a.** Any interest such utility paid, or credited, to its consumers in connection with refunds in a rate proceeding in which its rates were finally determined to be excessive.
- b.** The cost of legislative-advocacy expenses.
- c.** Expenditures for business gifts and entertainment that the Commission determines not to be in the public interest.
- d.** Expenditures of any kind which the Commission determines not to have been prudently incurred or not incurred in the interest of the public.
- e.** Attorneys' fees, costs and expenses associated with (i) any proceeding in which the public utility is ordered or agrees to make a refund to ratepayers, or (ii) any proceeding in which the public utility is found to have acted illegally or committed any wrongdoing or (iii) any settlement, or other agreement, related to any proceeding in which the underlying allegations of such proceeding assert that the public utility acted illegally or committed any wrongdoing. Such expenditures, or portion thereof, associated with part (i) of this paragraph, or associated with parts (ii) and (iii) of this paragraph as to any unintentional illegal act or wrongdoing, may be considered allowable operating expenses upon a showing by the public utility that such expenses were prudent, in the public interest and result in just and reasonable rates.

104 Determination of a Fair Rate of Return

The fair rate of return for a public utility may be arrived at by considering a number of factors, and it cannot be determined by any specific formula, except as provided for in Miss. Code Ann. §77-3-2. However, the basic factors to be considered in arriving at the overall required rate of return are (1) the cost of debt capital, (2) the cost of preferred stock capital and (3) the cost of equity capital. The capital costs of a public utility shall be determined based on evidence of the appropriate costs for the utility's debt capital, preferred stock capital and equity capital. The overall cost of capital may be determined as weighted average of the appropriate costs of these various types of capital.

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